Sun Chemical Corporation Annual Report 1978

Sun Chemical Corporation is a multinational manufacturing company. Approximately 80 percent of its products are sold to the graphic arts and specialty chemicals industries. The company has more than 100 locations throughout the United States and conducts operations in 14 foreign countries. Sun Chemical's four lines of business and major products are as follows:

	1978 (in millions of dollars)	Sales	Operating Income
Graphic Arts Materials—printing inks for every major process used in the publishing and packaging industries, and organic pigments for the printing ink, paint, plastic, textile and cosmetic industries.		$261.5	$25.9
	Percent of total	67%	57%
Graphic Equipment—cylindrical decorating equipment for printing and coating two-piece beverage cans, electronic color scanners that separate color photography into a usable form for printing, and other related products.		$ 29.1	$ 4.9
	Percent of total	7%	11%
Instruments—electro-optical systems for military applications and altimeters and other types of aircraft instrumentation.		$ 50.9	$ 6.8
	Percent of total	13%	15%
Diversified Products—insulation and shielding materials for wire and cable, reinforced vinyl laminates, automotive cigarette lighters, specialty chemicals for the textile, paper and graphic arts industries.		$ 52.1	$ 7.6
	Percent of total	13%	17%

Cover
Yellow offset printing ink is shown pouring onto a three roll mill. Sun Chemical is the largest printing ink producer in the world and one of the largest manufacturers of organic pigments used to make those inks.

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The Annual Meeting
of Sun Chemical Corporation shareholders will be held at Manufacturers Hanover Trust Company, 350 Park Avenue, 30th Floor Board Room, New York City, on Thursday, April 26, 1979, at 11:00 a.m.

Transfer Agent and Registrar
Manufacturers Hanover Trust Company
4 New York Plaza
New York, New York 10015

Contents

Financial Highlights

(in thousands of dollars except per share data)	**1978**		1977		1976	
	Amount	**Per Share**	Amount	Per Share	Amount	Per Share*
Net sales	**$393,602**		$337,510		$291,679	
Income before extraordinary credits	**18,474**	**$ 5.49**	14,808	$ 4.45	11,290	$ 3.56
Extraordinary credits	**1,179**	**.35**	458	.14	1,490	.47
Net income	**19,653**	**5.84**	15,266	4.59	12,780	4.03
Common shareholders' equity	**89,288**	**27.33**	75,425	22.99	58,994	18.89
Dividends paid on common stock	**1,953**	**.60**	1,450	.45	833	.26⅔
Number of employees	**5,600**		5,000		4,900	
Number of common shareholders	**7,600**		7,900		8,100	

*Adjusted for the 3-for-2 stock split in February 1977.

1978 Operating Highlights

Sales, operating income, earnings per share and shareholders' equity—all set records.

New organic pigments manufacturing plant opened—first major plant in the United States in three decades.

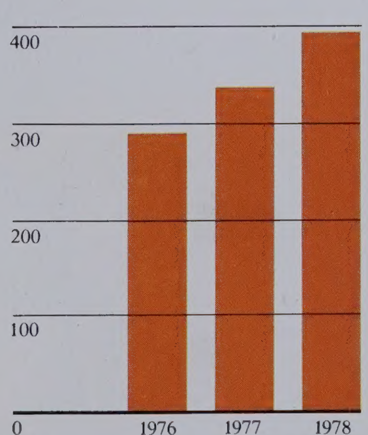
Record $30.2 million capital spending builds foundation for future growth and profit improvement.

Initial contract awarded for a major military night vision sight program.

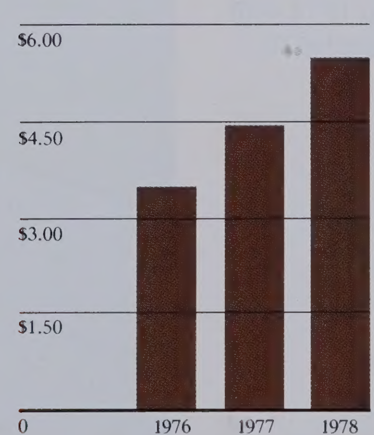
Three new foreign joint venture companies formed—two in printing inks and one in laminates.

First public offering of debt securities completed—$40 million of 11½% subordinated debentures.

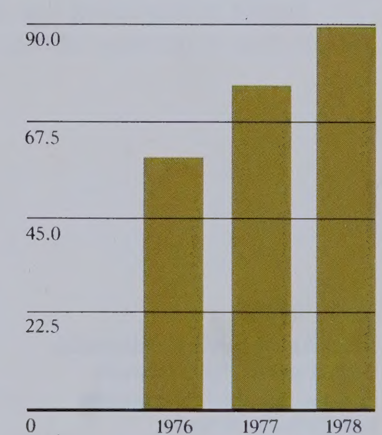
Sales
(in millions of dollars)



Earnings Per Share



Shareholders' Equity
(in millions of dollars)



To Our Shareholders

We are pleased to report that 1978 was the finest year in Sun Chemical's history. The strong performance gains over 1977 were most evident in the following areas:

- Sales rose 17% to a new high of $393.6 million.
- Pre-tax profit was 18% higher at $31.1 million; and income before extraordinary credits was $18.5 million, up 25%.
- Earnings per common share before extraordinary credits were 23% higher at $5.49.
- Shareholders' equity reached a new record of $89.3 million, a rise of 18%.
- Capital expenditures rose to an all-time high of $30.2 million, totaling $48.9 million for the last three years.

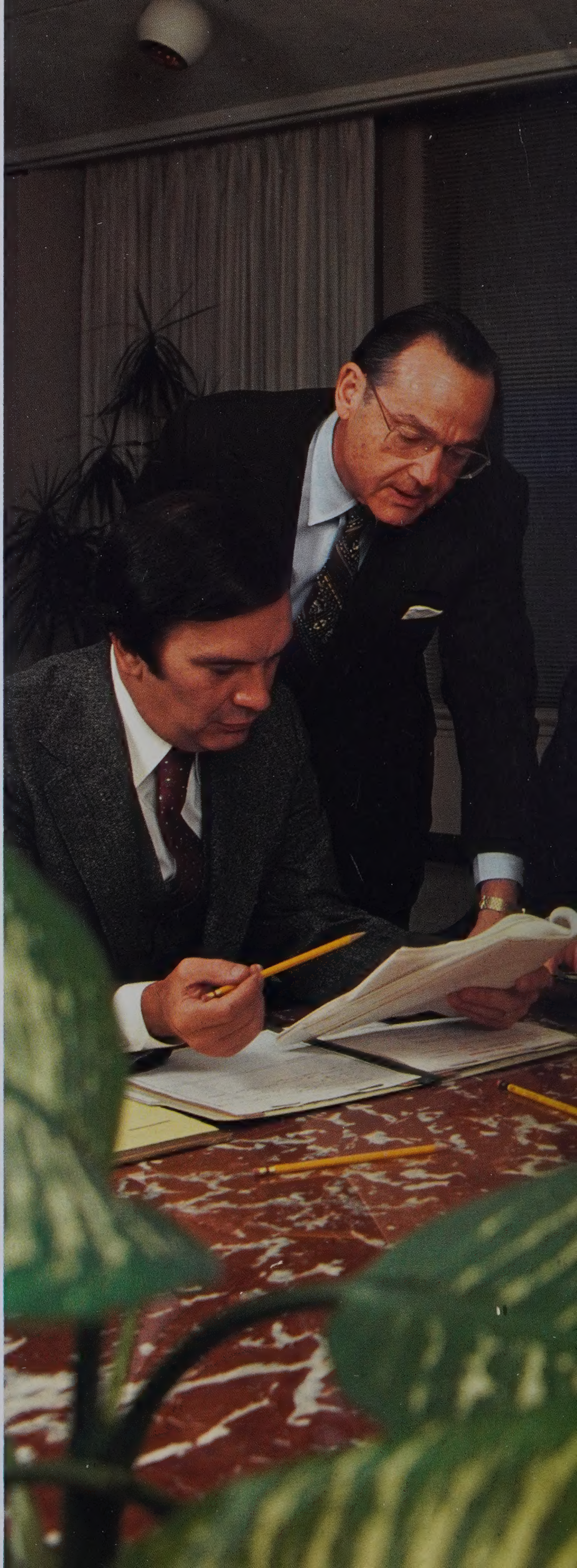
Sun's four business segments all showed good sales gains over 1977. The graphic arts materials group was particularly strong with a sales increase of 20%.

Operating income was the highest in the company's history. Graphic arts materials, instruments and diversified products all made record contributions to income. Graphic equipment income was down slightly from 1977. Within this group, earnings gains in cylindrical decorating operations were offset by problems encountered in the introduction of a new generation of scanning equipment. With this situation now resolved, profitability should improve in 1979.

The company's ability to take advantage of growing markets for its products has been enhanced by an extensive program, initiated in 1976, to increase productive capacity. Through 1978, almost $49 million has been spent, over $30 million of that in 1978. We expect to spend an additional $25 million in 1979.

Late in 1978, we completed our first public offering of debt securities with the sale of $40 million of 11½% subordinated debentures due in 1996. The proceeds have substantially increased Sun's capital base and will be used to finance investments and future expenditures for plant and equipment.

Senior management was strengthened in 1978 with the election of five new officers. All were promoted in



Standing: Norman E. Alexander. Seated left to right: Edward E. Barr, Gerald S. Gutterman and Stuart Z. Krinsly.

recognition of their demonstrated managerial abilities and contributions to Sun's profitability over the years.

Elected corporate vice presidents were: Daniel J. Carlick, technical director, graphic arts group; Dennis M. Libutti, general manager, Rutherford Machinery; Massie E. Odiotti, general manager, General Printing Ink; and James Weintraub, general manager, research and development. David J. O'Brien was elected treasurer.

The next two pages contain a description of the strategies we are employing to provide Sun with the strongest possible base for future growth. Sun's executive management committee is primarily responsible for developing these strategies. Stuart Z. Krinsly, executive vice president and general counsel, and Gerald S. Gutterman, senior vice president, finance, as committee members, have made important contributions to the company's growth.

Our greatest thanks go to all the employees of the company for their success in implementing our growth strategies and making 1978 such an outstanding year.

Sincerely,

Norman E. Alexander

Norman E. Alexander
Chairman of the Board and
Chief Executive Officer

Edward E. Barr

Edward E. Barr
President and
Chief Operating Officer

February 26, 1979

Strategic Overview

Sun Chemical operates with a long-term view in developing strategies for each of its businesses. Principal strategies being applied are:

- Concentrate on specialty businesses in growing markets with potential opportunity for product leadership.
- Set minimum profitability criteria with particular emphasis on current and future return on assets.
- Use research and development to gain product leadership in established areas and to penetrate new market segments.
- Maintain a multi-industry investment perspective for both current product lines and for expansion into or acquisition of other businesses.
- Improve productive capacity with the most modern and efficient plant and equipment and latest available technology.
- Maintain a strong capital base to permit an aggressive business growth and expansion policy and to achieve operating objectives and growth goals.

The effect of these strategies is presented in the following analysis of Sun's growth and profitability during the last few years.

Market Leadership Sun holds leading market positions in most of its product lines, the result of the cumulative effect of many years of effort to increase market position.

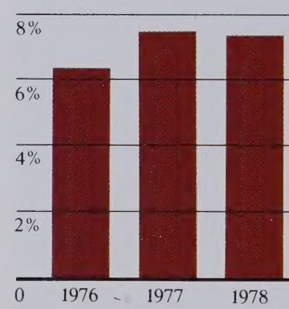
Several factors have contributed to Sun's ability to grow faster than its markets. First, the company has taken a long-term view of its markets and, during periods of slow growth, has continued to install and upgrade production capacity. Second, the company has continued to add to staff in anticipation of future needs, particularly in technical service areas which are important in building long-term customer relationships. Third, Sun has continued to be a leader in product innovation and to invest strongly in research programs. Graphic arts products—printing inks and organic pigments—representing 67% of the company's business have consistently attained stronger positions in their respective U.S. markets in recent years. Sun is a leader in both of these related product areas.

Sun is a market leader in beverage can decorators, color scanners, wire and cable laminates and auto cigarette lighters. In other areas, such as electro-optics and specialty chemicals, Sun aggressively pursues leadership positions in selected segments of these markets.

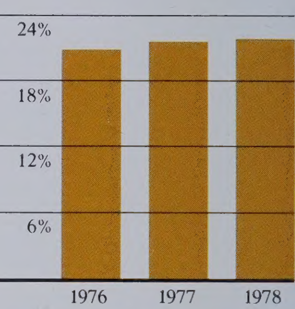
Profitability Over the past three years, Sun's sales, income and assets have all been growing at an average annual rate of more than 16%.

The company's operations are continuously measured and evaluated using several financial criteria, such as current and projected return on assets and present value after-tax cash flow. As the charts below show, during the past three years Sun has consistently attained high levels of profitability.

Return on Assets



Return on Equity



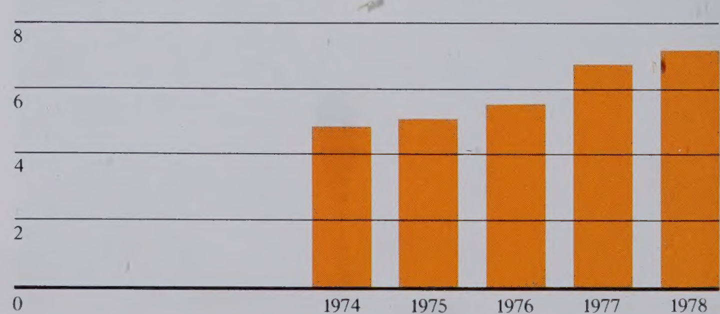
(Income before extraordinary credits divided by average assets and average equity)

Profitability at these levels has been achieved during a period when Sun accelerated its expenditures for R&D, plant capacity, improved production techniques and technical and customer service activities to assure that future profit levels remain within acceptable standards of performance.

Research and Development Sun relies on research and development to meet the specialized needs of its markets. Ongoing R&D programs have played an important part in Sun's growth during recent years and have been responsible for the rapid penetration of a number of market segments.

During 1978, Sun accelerated its research and technical training programs in most product areas. The rapid sales growth experienced by the company in recent years has supported substantially greater R&D efforts, while maintaining expenses at approximately 2% of sales.

Research and Development Expenditures
(in millions of dollars)



Multi-Industry Focus Sun Chemical's investment priority is directed first at its current businesses and, second, at growth through diversification into new specialty markets.

Sun's increasing investments in Ault & Wiborg and in joint venture ink companies illustrate the first strategy; the successful integration of Standard Kollsman illustrates the second. Following its acquisition, Kollsman was restructured extensively and is making a significant profit contribution to the company.

At present, Sun's principal nonconsolidated investments are:

Ault & Wiborg Group Limited, a major ink, paint and specialty chemical producer in Great Britain. Sun owns 44% of the total shares outstanding at December 31, 1978, having increased its ownership by 2% a year in each of the last two years.

Joint Venture Printing Ink Companies, located in Latin America and Australia. Sun's investment strategy is to establish a position in potential growth markets at a minimal cost and low down-side risk.

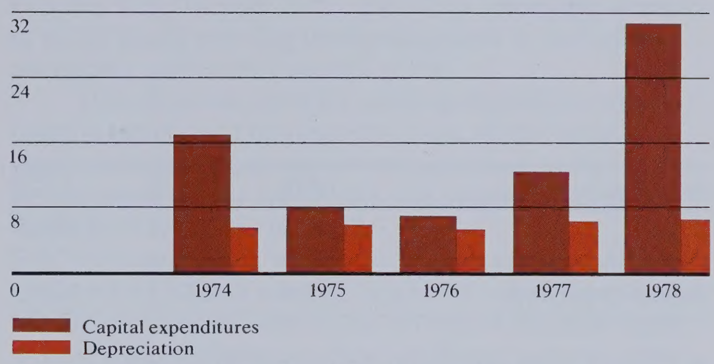
Materiels Equipements Graphiques (MEG), a French manufacturer of dryers and accessory equipment for printing presses. MEG, 50% owned by Sun, experienced substantial growth last year. The company has recently begun a successful export program to the United States.

Chromalloy American Corporation, a diversified, multi-product company serving industrial, consumer and governmental markets. At December 31, 1978, Sun held approximately 4.2% of the common stock of Chromalloy, and since then has increased its holdings to 5.5%.

Manufacturing Capacity A prime objective at Sun is to assure sufficient manufacturing capacity to meet present and anticipated market demands for all its products. To complement this, the company employs the most modern, cost-efficient production techniques to insure consistent product quality.

Adopting a long-term perspective, Sun believes in installing new capacity to meet projections, regardless of the economic cycle. Major facilities built or expanded during 1978 add significant capacity to Sun's businesses, and are detailed in the review of operations on the following pages.

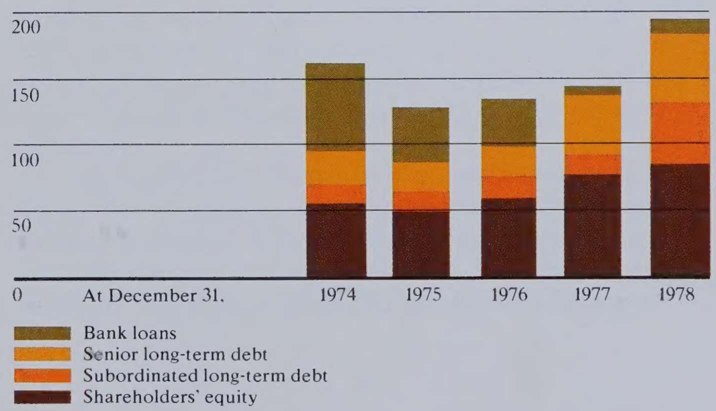
Capital Expenditures and Depreciation
(in millions of dollars)



Capital Structure In the last three years, Sun has restructured its capital base to provide funds for business expansion, capital expenditures and investments. During this period, the company has strengthened its financial position by lowering the proportion of total debt in relation to equity and through a major restructuring of the debt. This was achieved by lengthening debt maturities through replacement of bank loans with new long-term debt; subordinating a substantially greater portion of long-term debt; and modifying existing note agreements to provide greater flexibility in future financing.

As shown in the chart below, at the end of 1978 Sun's equity base was $89.3 million, an increase of 67% over the $53.5 million at the end of 1974. This solid growth in equity permitted Sun to issue $40 million of subordinated debentures to the public late in 1978 during a difficult credit market.

Capital Structure
(in millions of dollars)



The success of Sun's growth and future plans is in the hands of an aggressive, experienced and dedicated group of executives. Their contribution to Sun's growth is reflected in the following review of operations.

Graphic Arts Materials

Printing inks
Organic pigments

(in millions of dollars)	1978	1977	1976
Sales	$261.5	$218.1	$193.0
Operating income	25.9	22.4	22.7
Assets employed	158.5	131.7	106.1

- Capital spending for graphic arts materials rises to new high of $20.8 million.
- New Muskegon pigments facility starts up—the most modern pigments plant in the world.
- Two new joint ventures expand Sun's international ink operations.
- New plant opens in Venezuela, the country's largest and most modern printing ink facility.
- Sun leads in research and application development program to help customers meet environmental standards.

Every year, more high-quality publications are being printed on web offset presses at speeds of up to 1,500 feet per minute. Sun Chemical is the major producer of web offset inks in the United States.

Printing Inks Sun Chemical is the largest printing ink producer in the world. In the United States, its General Printing Ink Division (GPI) maintains strong positions in such rapidly growing market segments as web offset, packaging and metal decorating inks.

Web offset ink, used for printing magazines, advertising materials and newspapers, is one of the fastest growing market segments. GPI was a pioneer in the development of this type of ink and presently holds the major position in this market.

Packaging inks, which account for over one-third of the total U.S. ink market, represent a growing business for GPI. In addition, they make up one of the most stable market segments because of the consistent high consumer and end-user demand for all types of packaged goods.

Effective technical service and research programs to improve the application and quality of rigid and flexible packaging inks have steadily enhanced GPI's market share. GPI also has recorded strong gains in metal decorating inks used primarily on beverage cans.

Customer service is an important factor in the successful marketing of GPI's products. The division has established a technical/environmental group to help printers comply with state and federal regulations on air pollution. Levels of stack emissions caused by ink solvent evaporation are tested at customers' plants to keep them within parameters set by regulatory agencies. As part of GPI's commitment to leadership in this area, a full-scale research program is under way to replace these solvents with materials that reduce or eliminate the emissions.

GPI provides fast response to the needs and problems of large-volume printers by establishing ink blending, service and storage operations in or near their plants. In 1978, GPI had more of these "in-plant" facilities than any other ink manufacturer in the United States. In addition to providing Sun with high volumes of ink sales, "in-plants" permit a closer working relationship with customers by carrying out special requirements, such as custom blending and product adaptations, quickly and efficiently.

GPI continually invests in plant and equipment improvements to achieve maximum manufacturing and service efficiencies. A key strategy is to allocate manufacturing capacity among centralized, local branch and "in-plant" facilities to effect the best balance between

customer needs and production economies. GPI presently has six centralized manufacturing plants and 41 regional and branch operations in the United States.

Last year, it expanded two of its centralized production plants in Tulsa, Oklahoma, and Kankakee, Illinois. A news ink plant servicing eight western states was built in Bakersfield, California, and the branch manufacturing plant servicing northern California moved to a modern facility in San Leandro.

During 1979, GPI plans to open several new facilities and to continue to expand its existing plants. Two projects are under way in New Jersey. A large ink branch will be moved from East Rutherford to a new facility in nearby Teterboro, and a news ink plant will be built on the old site.

Outside the United States, Sun's ink companies in Canada, France, Italy, Mexico, Venezuela and Belgium have been making significant contributions to growth. Since 1973, when many of these companies were acquired, Sun has benefited from an increasing exchange of technology and, in 1978, these operations made their greatest contribution to profits since their acquisition. In terms of corporate results, Sun benefited from the strong performance in 1978 of Ault & Wiborg, an affiliated ink manufacturing company in the United Kingdom.

In Venezuela, where Sun is the leading ink company, operations have been relocated to a new and larger plant that started up early in 1979. Two new joint ventures were formed that give Sun an important share of growing markets in Chile and El Salvador.

Organic Pigments Sun Chemical's Pigments Division produces more pounds of organic pigments annually than any other manufacturer in the United States. The division produces many types of pigments used in printing inks, paints and coatings, plastics, textiles and cosmetics.

Production of diarylide yellow pigments has begun at the division's new manufacturing complex in Muskegon County, Michigan. Diarylide yellows are used primarily in printing inks and account for 75% of all organic yellow pigments produced. When full production

One of the first batches of yellow pigment manufactured at the new Muskegon plant. Here, the color is extruded in wet presscake form before going into the dryer.

capacity is reached, Sun will be the largest domestic manufacturer of this type of pigment.

Sun is the leading manufacturer of predispersed "flushed" colors for printing inks. These pigments are formulated with mineral oil or other appropriate vehicles, making them much easier to mix with other ink ingredients. The Pigments Division has begun distribution of flushed and dry colors to the European and South American markets through its own representatives and the company's export sales network. Technical support for European customers is provided by a service laboratory recently established in England.

The paint industry requires over 23 million pounds of color annually, making it, after printing inks, the second largest user of organic pigments in the United States. Since 1974, the Pigments Division has substantially increased its sales to this important market. A program is under way to develop more efficient pigment forms for the paint manufacturing process.

Sun is the largest U.S. producer of cosmetic colors, a position it has held for many years. Currently, the Pigments Division has an aggressive marketing effort for this product line going on overseas.

A new research center was completed last year at the division's headquarters in Cincinnati, Ohio. Pigment research and development, environmental and evaluation laboratories are consolidated there and supported by a research staff that has been increased 40% over the past three years.

Graphic Equipment

Cylindrical decorators
Electronic color scanners

(in millions of dollars)	1978	1977	1976
Sales	$29.1	$26.5	$26.1
Operating income	4.9	5.0	3.3
Assets employed	20.9	19.6	17.4

- Rutherford Machinery receives record orders for can decorators in 1978; year-end backlog reaches all-time high.
- Major plant expansion increases Rutherford Machinery's capacity.
- Rutho-Graphics adds two service centers for color scanning equipment, providing nationwide 24-hour service.

Equipment from Rutherford Machinery is used to both print and dry these aluminum beverage cans. The majority of beverage cans printed worldwide are decorated by Rutherford's equipment.

Rutherford Machinery The Rutherford Machinery Division is the world's largest manufacturer of decorating and coating equipment for two-piece beverage cans. The division completed its most successful year in 1978, maintaining its preeminent share of the world market for these products.

The U.S. market for two-piece cans continues to grow at an annual rate of more than 10%, with the industry operating at full capacity. This has created a demand for additional facilities and for new equipment supplied by Rutherford Machinery.

Overseas, demand for two-piece can equipment is expected to remain high during the next few years. As a result, the division's foreign sales for 1979 will make an important contribution to total sales.

Rutherford is now marketing a new can drying system, using a direct flame impingement concept. This system reduces energy use by 65% over conventional methods.

To meet the increasing demand of its growing markets, Rutherford Machinery has completed an expansion of its present facilities in East Rutherford, New Jersey, doubling its manufacturing and engineering space.

Rutho-Graphics The Rutho-Graphics Division is the exclusive North American distributor of Magnascan electronic scanning equipment used throughout the world to separate color photographs into the four basic printing colors. Evolution of scanners over the years has allowed increased productivity over older, less efficient methods of color separation.

During 1978, problems associated with the introduction of the Magnascan model 550 severely hurt Rutho-Graphic's profitability. However, by year-end these problems had been resolved. Now fully operational, the Magnascan 550 is one of the most advanced color scanners on the market. It is capable of making all four color separations simultaneously and is enjoying increasing market demand. During 1979, the division plans to introduce the Magnascan model 570, an automated page makeup system that operates in conjunction with a model 550 scanner and permits a complete, full-color page to be prepared and modified electronically.

To support increasing business, the division's technical staff was enlarged by 50% in 1978. Two regional service centers were opened in 1978 in Dallas and Toronto, and another is planned for Atlanta. These centers provide 24-hour nationwide service to color scanning equipment customers. Rutho-Graphics is moving its operations into larger facilities near Graphic Equipment Group headquarters in East Rutherford, New Jersey.

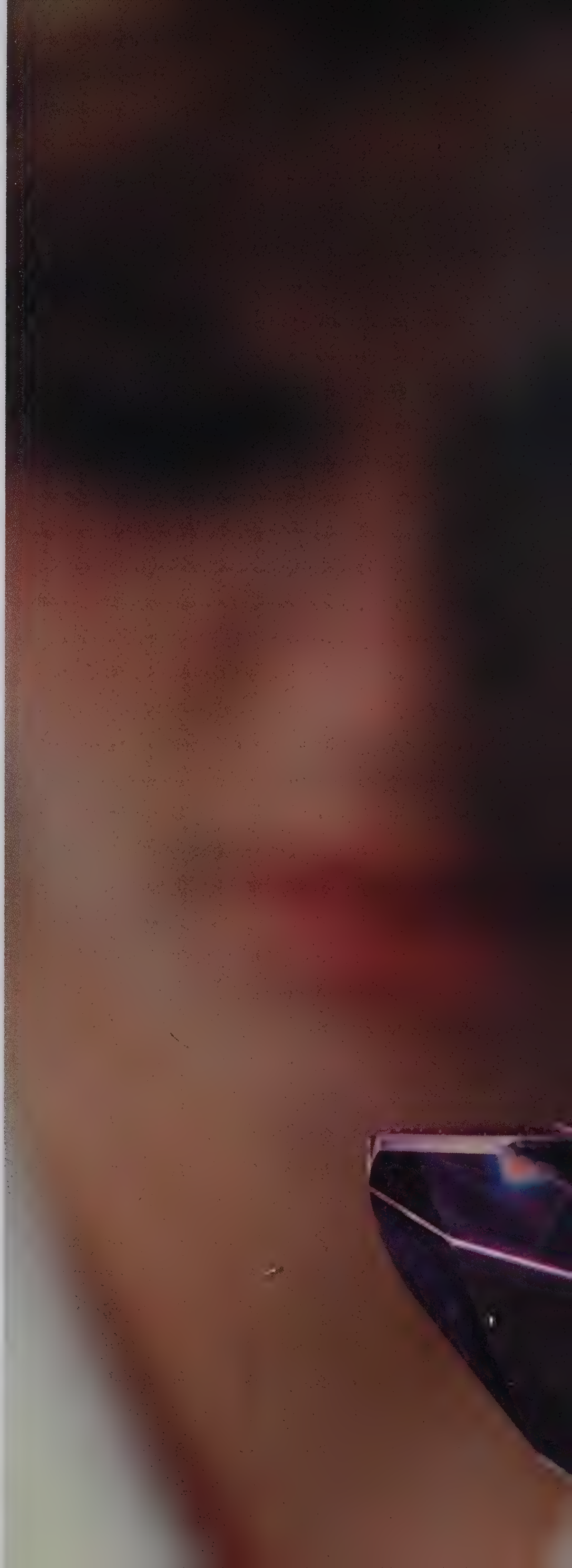
Instruments

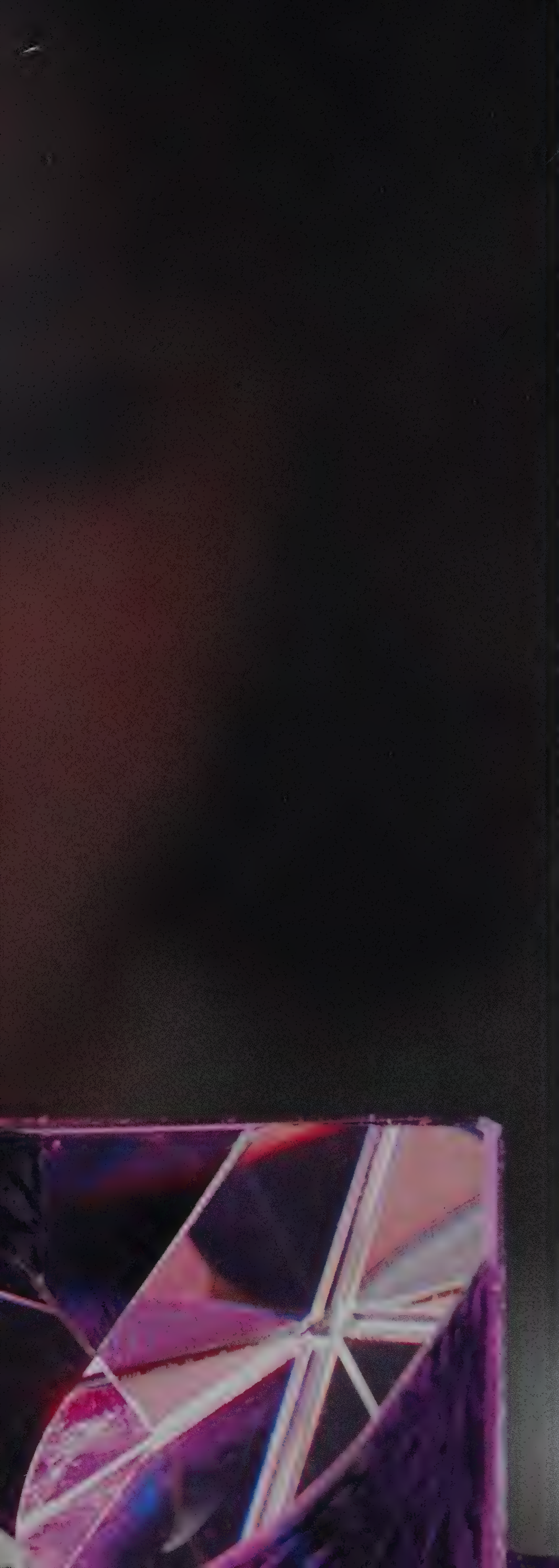
Electro-optical products for the defense industry
Altimeters and air speed instruments

(in millions of dollars)	1978	1977	1976
Sales	$50.9	$45.1	$31.5
Operating income	6.8	5.5	1.0
Assets employed	30.8	17.6	19.5

- Kollsman receives first phase of a multimillion-dollar contract for production of manportable common thermal night sights.
- Year-end backlog reaches $88.5 million.
- 50% facility expansion of main plant in New Hampshire completed.

This prism is an optical component of a "Dragon" antitank missile tracker. Electro-optical devices, such as the "Dragon" tracker, form about half of Kollsman's present production.





Instruments The Kollsman Instrument Division is a leading supplier of electro-optical systems for defense applications and a major manufacturer of altimeters and other aircraft instruments. Profits rose 24% above 1977, reflecting Kollsman's continued strong performance. Total backlog at the end of 1978 reached a new high.

"Dragon" antitank missile tracker production reached 400 units per month in 1978. In addition to the domestic tracker program, Kollsman is supplying components and technology to Switzerland, an approved foreign government, where an active production program is under way.

Production facilities for the M60-A3 tank fire control system were completed in 1978. Deliveries of this system are scheduled to begin in 1979.

Late in 1978, Kollsman received a contract award to produce manportable common night vision sights for use with three weapons systems—the "Dragon" and "TOW" antitank missile systems and the "NODLR" (long range night observation device). The initial contract for 83 "TOW" units carries a value of $6.2 million, with deliveries scheduled through 1980. Follow-on options for production of 2,200 additional units have a value of about $40 million.

Through the use of infrared technology, the night vision sights permit battlefield operation of weapon systems under nighttime and limited visibility conditions. Kollsman will produce the basic common module receiver, designed to permit integration of this unit into several different night vision systems. These and similar sights are expected to be used throughout the armed forces by the mid-1980s.

In 1978, Kollsman completed a 50% expansion of its main plant in Merrimack, New Hampshire, only three years after it was opened. The additional space and equipment provide greater capacity to meet production needs of major programs already under contract.

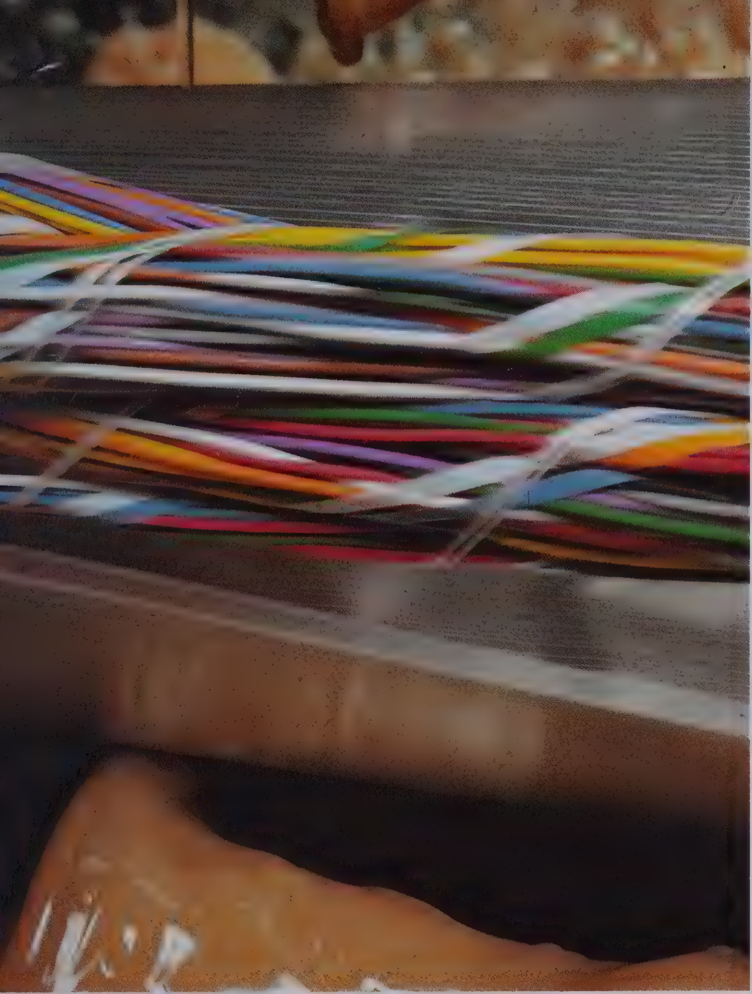
Diversified Products

Flexible laminates
Automotive products
Specialty chemicals

(in millions of dollars)	1978	1977	1976
Sales	$52.1	$47.8	$41.1
Operating income	7.6	6.8	4.9
Assets employed	20.2	16.2	15.3

- Facile opens new markets through European joint venture with a major Belgian company.
- Casco maintains market leadership in both original equipment and replacement auto lighter sales.
- Chemicals Division adds productive capacity to support growth in new product lines.

Above: The six-part telephone cable shown here is being wrapped with Facile's laminated shielding to prevent crosstalk interference. Below left: This cigarette lighter, one of the many millions Casco produces annually, is being installed in a new automobile on an assembly line. Below right: These rolls of publication quality paper are coated with Chemicals Division resins for improved printability.



Flexible Laminates The Facile Division is a leader in the development and manufacture of specialized laminates used for shielding and insulation in the electronic wire and cable industries, and manufactures vinyl reinforced laminates used in tarpaulins, dental x-ray film packs and air supported structures. Profits continued strong in 1978.

Facile developed a line of internal shielding tapes for pulse code modulation (PCM) telephone cables. PCM cables allow thousands of signals to flow in both directions with minimal crosstalk interference.

The division is increasing production capacity for PCM, cable television, instrumentation and other cable shielding and insulation tapes. A new facility is under construction near the division's plant in Paterson, New Jersey, where a specially designed 72″ wide film/foil laminator will be installed. To expand its European market for these products, the division formed a joint venture in Belgium with Union Chemique Belgique, S.A., a large diversified chemical manufacturer.

Facile has undertaken a major program to expand its product development, research and technical service groups in order to focus on new product applications and market diversifications.

Automotive Products The Casco Products Division has long been the leading supplier of cigarette lighters to all major automobile and recreational vehicle manufacturers in the United States. Recently, Casco was chosen as exclusive manufacturer of lighters for the new Volkswagen "Rabbit" plant in Pennsylvania.

Casco also holds a major share of the replacement lighter market for domestic and foreign cars. These lighters are sold nationwide through all automotive outlets and retailers such as Sears, K-Mart and Montgomery Ward.

The division is also the largest independent producer in the United States of distributor vacuum chambers that control spark timing during acceleration and deceleration. The chambers are sold to manufacturers and rebuilders of distributors.

Specialty Chemicals The Chemicals Division produces specialty chemicals for the textile, paper and graphic arts industries. Long one of the leaders in textile finishing chemicals, the division is increasing its position in paper and dyehouse chemical markets.

In the past year, the division has doubled its personnel in the paper chemicals area to keep pace with rapid market growth. New paper chemical products improve the printability and gloss of finished papers.

Expansion into dyehouse chemicals has created an increase in the division's market base in textile chemicals. Current research and development projects for the textile industry are aimed at improving existing dyeing systems, while providing nontoxic, environmentally safe chemicals.

In 1978, Chemicals increased its productive capacity by adding warehouse space, expanding production area, adding a new "tank farm" for raw materials storage and installing new reactor capacity.

Sun Chemical Corporation and Subsidiaries

Summary of Operations (in millions of dollars except per share data)

	1974	1975	1976	1977	**1978**
Net sales	$281.1	$259.4	$291.7	$337.5	**$393.6**
Cost of goods sold	196.2	187.9	201.6	232.2	**271.8**
as percentage of net sales	*70%*	*73%*	*69%*	*69%*	*69%*
Selling and administrative	56.4	52.8	61.3	68.8	**79.8**
as percentage of net sales	*20%*	*20%*	*21%*	*20%*	*20%*
Research and development	4.8	5.1	5.5	6.7	**7.3**
as percentage of net sales	*2%*	*2%*	*2%*	*2%*	*2%*
Operating income	23.7	13.6	23.3	29.8	**34.7**
as percentage of net sales	*8%*	*5%*	*8%*	*9%*	*9%*
Interest expense, net	(10.3)	(8.4)	(5.9)	(5.4)	**(6.1)**
Unusual items	(6.6)	(4.2)	—	—	**—**
Equity in net earnings of affiliates and other, net	.8	2.1	1.2	1.9	**2.5**
U.S. and foreign taxes on income	(3.0)	(3.1)	(7.3)	(11.5)	**(12.6)**
Income from continuing operations	4.6	—	11.3	14.8	**18.5**
Discontinued operation	(2.2)	(5.4)	—	—	**—**
Income (loss) before extraordinary credits	2.4	(5.4)	11.3	14.8	**18.5**
Extraordinary credits	.7	—	1.5	.5	**1.2**
Net income (loss)	3.1	(5.4)	12.8	15.3	**19.7**
Per share*					
Income from continuing operations	$1.47	$ —	$3.56	$4.45	**$5.49**
Loss from discontinued operation	(.69)	(1.73)	—	—	**—**
Income (loss) before extraordinary credits	.78	(1.73)	3.56	4.45	**5.49**
Extraordinary credits	.21	—	.47	.14	**.35**
Net income (loss)	.99	(1.73)	4.03	4.59	**5.84**
Dividends paid	.26⅔	.26⅔	.26⅔	.45	**.60**

*Adjusted for the 3-for-2 stock split in February 1977.

Comments

Net sales for 1978 reached a new record, increasing by $56.1 million, or 17%, over 1977. Graphic arts materials were ahead $43.4 million, or 20%, with strong gains recorded in all domestic ink and organic pigments operations. All foreign operations except one showed improvement as well. Graphic equipment sales were up $2.6 million, or 10%. Substantial gains were realized in the beverage can decorator and coater line, but these were partially offset by lower volume in scanning products because of delays encountered in introducing new equipment, reduced sales of specialized drying equipment and the absence of the former Sta-Hi Systems Division which was sold in July 1977. Instruments sales were up $5.8 million, or 13%, with substantial gains realized in both domestic and foreign operations. Diversified products increased $4.3 million, or 9%, with gains recorded in all lines—specialty chemicals, flexible laminates and automotive products.

The year-end backlog of unfilled orders in the instrument and graphic equipment segments was $112.3 million, up $20.7 million, or 23%, over 1977.

The sales increase achieved in 1977 was $45.8 million, or 16%, better than 1976. In that year, graphic arts materials showed a 13% gain. Graphic equipment was up only 2%, primarily because of the disposition of the Sta-Hi Systems Division. Instruments sales were 43% higher because of full-year shipments on a major government contract. Diversified products were 16% greater than 1976.

Cost of goods sold as a percentage of net sales remained relatively constant at 69%, with all segments recording gross profits variances of less than 1% from 1977 to 1978. The instrument segment showed significant improvement in 1977 as a result of substantial sales increases together with manufacturing efficiencies attained in the first full year of operation in the Merrimack, New Hampshire plant.

Selling and administrative expenses were higher by $11 million, or 16%, in 1978, but remained constant as a percentage of sales at 20%. This reflects an increase in personnel to support the Company's growth in addition to the impact of inflation on all expenses. In 1977, selling and administrative expenses increased by $7.5 million, or 12%, over 1976, primarily because of personnel additions, higher distribution costs and higher state income and local franchise taxes.

Research and development expenses reflect an increase of $.6 million, or 9%, over 1977. Approximately 65% was expended in graphic arts materials, with the remainder evenly dispersed over all other segments. In 1977, 61% was expended for graphic arts materials, 22% for graphic equipment and the remainder for the other segments.

Net interest expense in 1978 was $.7 million higher than in 1977 because of an increase in long-term borrowings, partially offset by an increase in interest income on short-term investments. In 1977 interest expense was $.5 million lower than the prior year because of lower average short-term borrowings. This was partially offset by the interest on the new, senior long-term notes and the imputation of interest on long-term leases that were capitalized under new accounting rules.

Unusual items totaling $10.8 million in 1974-1975 included $8.7 million to restructure instrument operations and relocate the facility from Syosset, New York to Merrimack, New Hampshire, and $1.8 million for loss on product line discontinuances.

Equity in net earnings of nonconsolidated affiliate companies increased in 1978 and 1977 primarily due to increased earnings of Ault & Wiborg Group Limited, a 44% owned affiliate located in the United Kingdom. In 1976, other income was impacted by the decline in value of the pound sterling, the Mexican peso and other currencies in relation to the U.S. dollar. In 1975, other income showed an increase because of higher royalty income, foreign exchange gains and the minority interest share in net losses of certain foreign subsidiaries.

U.S. and foreign taxes on income provided in 1978, 1977 and 1976 are lower than the statutory rate mainly as a result of the equity in net earnings of affiliated companies which are net of tax expense in 1978 and 1977 and the realization of investment tax credits (ITC), including ITC carryforwards in 1976. The abnormally high provision for taxes on income from continuing operations in 1975 was due principally to losses of foreign subsidiaries for which no tax benefit could be reflected in that year.

Income from continuing operations reached a new high in 1978, 25% above the previous record. Significant contributions were made by all operations, with instruments, graphic arts materials and diversified products showing substantial gains. The break-even result of continuing operations in 1975 was principally attributable to provisions for restructuring instrument operations and discontinuing certain product lines.

Discontinued operation reflects the decision in 1975 to discontinue the SunCom Systems Division's phototypesetting and text editing systems business. Results of the division's operations since its inception in 1973 were deconsolidated. Disposition of the division's assets was completed in 1976.

Extraordinary credits in 1978, 1977 and 1976 resulted from tax benefits realized from utilization of prior years' loss and tax credit carryforwards. The 1978 amount also includes equity in an affiliate's insurance gain.

The dividend rate was effectively more than doubled in 1977. The Board of Directors maintained the quarterly dividend at 10¢ a share after the 3-for-2 stock split in February 1977 and increased the quarterly dividend to 15¢ a share in October 1977 and continued that amount through 1978.

Summary of Financial Condition (in millions of dollars except per share data)

	1974	1975	1976	1977	**1978**
Current assets	$139.7	$107.7	$116.2	$139.8	**$184.3**
Short-term bank loans	66.0	38.1	32.9	6.2	**11.5**
Other current liabilities	49.6	50.0	50.1	64.8	**94.5**
Net working capital	24.1	19.6	33.2	68.8	**78.3**
Current ratio	1.2	1.2	1.4	2.0	**1.7**
Property, plant and equipment (net)	55.7	56.3	51.6	58.1	**80.1**
Capital expenditures	16.6	7.9	6.8	11.8	**30.2**
Depreciation	5.4	5.8	5.3	5.7	**6.5**
Long-term debt	37.7	34.5	33.0	57.8	**85.4**
Common shareholders' equity	53.3	47.1	59.0	75.4	**89.3**
Equity per share*	17.06	15.08	18.89	22.99	**27.33**
Common shares outstanding at year-end (000's)*	3,125	3,124	3,124	3,281	**3,268**

*Adjusted for the 3-for-2 stock split in February 1977.

Comments

Current assets increased $44.5 million in 1978, principally due to a $26.4 million increase in receivables and inventory in support of the 17% sales gain. The remaining increase primarily represents the unutilized proceeds from long-term debt financings at the end of each year.

Short-term bank loans increased $5.3 million. The $11.5 million outstanding at the end of 1978 consists principally of borrowings of foreign subsidiaries and bank loans denominated in foreign currencies.

Net working capital increased to a record level of $78.3 million in 1978. This represents an increase of $9.5 million or 14% over last year's level. Increases in current assets more than offset increases in accounts payable and accrued taxes on income.

Property, plant and equipment (net) increased $22 million. Capital expenditures of $30.2 million in 1978 were the highest in the Company's history. Major projects included an organic pigments plant in Michigan, an ink plant in Venezuela and expansion of the main instruments facility in New Hampshire and the graphic equipment plant in New Jersey.

Long-term debt increased $27.6 million in 1978, due to the sale of $40 million of 11½% subordinated debentures in December. Of the proceeds, $11.8 million was used to prepay almost all of the Company's 6% subordinated notes.

Shareholders' equity reached a record high in 1978, increasing $13.9 million, or 18%, over year-end 1977. The ratio of combined long- and short-term debt to equity was 54:46 at the end of 1978 compared with 48:52 a year earlier.

Lines of Business (in thousands of dollars)

Year ended December 31,	1974	1975	1976	1977	**1978**
Net Sales					
Graphic Arts Materials	$161,131	$157,420	$193,007	$218,093	**$261,471**
Graphic Equipment	26,811	25,498	26,142	26,517	**29,057**
Instruments	40,502	37,371	31,455	45,074	**50,935**
Diversified Products	52,630	39,142	41,075	47,826	**52,139**
Net sales	$281,074	$259,431	$291,679	$337,510	**$393,602**
Operating Income					
Graphic Arts Materials	$ 19,030	$ 18,624	$ 22,694	$ 22,368	**$ 25,907**
Graphic Equipment	3,248	4,005	3,260	5,027	**4,949**
Instruments	2,846	(4,808)	978	5,548	**6,791**
Diversified Products	5,016	2,413	4,864	6,769	**7,623**
Income from operations	30,140	20,234	31,796	39,712	**45,270**
Corporate expense	(6,465)	(6,620)	(8,544)	(9,875)	**(10,602)**
Operating income	23,675	13,614	23,252	29,837	**34,668**
Unusual items	(6,564)	(4,201)	—	—	**—**
Non-operating items, net	(9,449)	(6,332)	(4,619)	(3,519)	**(3,584)**
Income before U.S. and foreign taxes on income	$ 7,662	$ 3,081	$ 18,633	$ 26,318	**$ 31,084**

Fourth Quarter Summary (in thousands of dollars except per share data)

Quarter ended December 31,	1977	**1978**
Net sales	$86,599	**$105,060**
Cost of goods sold	59,056	**73,285**
Operating income	8,523	**9,479**
Income before extraordinary credits	3,684	**4,463**
Extraordinary credits	352	**731**
Net income	4,036	**5,194**
Per share		
Income before extraordinary credits	$1.08	**$1.33**
Extraordinary credits	.11	**.22**
Net income	$1.19	**$1.55**

Comments

Net sales increased $18.5 million, or 21%, in the fourth quarter of 1978 over the same quarter in 1977. Graphic arts materials were $9.0 million, or 16%, ahead. All domestic ink and organic pigments operations and all foreign ink operations except one showed improvement. Graphic equipment sales gained 28% or $2.0 million. Cylindrical can decorators and scanning products were ahead significantly, but specialized drying products declined. Instruments achieved a sales increase of $6.5 million, or 63%, with domestic and foreign operations strong. Diversified products improved $1.0 million, or 7%. Automotive products and flexible laminates had a strong quarter, while specialty chemicals were slightly below the comparable 1977 quarter.

See Note 13 to the Consolidated Financial Statements regarding fourth quarter 1978 and 1977 adjustments.

Consolidated Balance Sheet

Sun Chemical Corporation and Subsidiaries

(in thousands of dollars)

As of December 31,	1978	1977
Assets		
Current assets		
Cash	**$ 10,229**	$ 9,317
Short-term investments (Note 2)	**27,651**	6,036
Due from issuance of senior notes (Note 7)	**—**	5,140
Accounts and notes receivable (less allowances: 1978–$5,437; 1977–$3,869)	**78,203**	62,208
Inventories (Note 3)	**65,847**	55,475
Prepaid expenses and other current assets	**2,324**	1,631
Total current assets	**184,254**	139,807
Investments		
Investment in Ault & Wiborg Group Limited (Note 4)	**8,976**	7,246
Investment in Chromalloy American Corporation (Note 5)	**7,290**	—
Other investments and non-current receivables	**6,444**	5,045
	22,710	12,291
Property, plant and equipment, at cost (Note 9)		
Land	**8,060**	6,140
Buildings	**37,616**	25,717
Machinery and equipment	**75,835**	63,022
	121,511	94,879
Less accumulated depreciation	**41,461**	36,826
	80,050	58,053
Other assets		
Deferred charges	**2,704**	1,233
Excess of cost over net assets of companies acquired	**2,889**	2,277
	5,593	3,510
Total assets	**$292,607**	$213,661

The accompanying notes are an integral part of the financial statements.

	1978	1977
Liabilities and Shareholders' Equity		
Current liabilities		
Bank loans (Note 6)	**$ 11,469**	$ 6,228
Current maturities of long-term debt (Note 7)	**7,748**	4,627
Accounts payable	**41,275**	27,915
Accrued expenses		
Salaries and wages	**9,280**	6,507
Interest	**1,772**	894
Taxes on income (Note 8)	**17,746**	10,393
Other	**16,667**	14,489
Total current liabilities	**105,957**	71,053
Long-term debt, net of current maturities (Note 7)	**85,379**	57,780
Deferred credits and other liabilities		
Deferred taxes on income (Note 8)	**4,582**	4,858
Minority interests and other	**7,401**	4,545
	11,983	9,403
Total liabilities	**203,319**	138,236
Commitments and contingent liabilities (Notes 9 and 14)		
Shareholders' equity		
Common stock	**3,480**	3,480
Capital in excess of par value	**25,056**	27,078
Retained earnings	**65,265**	47,565
	93,801	78,123
Less: Cost of common stock in treasury	**3,139**	2,698
Valuation allowance on investment in Chromalloy American Corporation (Note 5)	**1,374**	—
Total shareholders' equity	**89,288**	75,425
Total liabilities and shareholders' equity	**$292,607**	$213,661

Consolidated Statement of Income

Sun Chemical Corporation and Subsidiaries

(in thousands of dollars except per share data)

Year ended December 31,	1978	1977
Net sales	**$393,602**	$337,510
Costs and expenses		
Cost of goods sold (Note 3)	**271,830**	232,211
Selling, administrative and research	**87,104**	75,462
	358,934	307,673
Operating income	**34,668**	29,837
Other (charges) credits		
Interest expense, net	**(6,123)**	(5,406)
Equity in net earnings of affiliated companies (Note 4)	**1,988**	933
Other, net	**551**	954
	(3,584)	(3,519)
Income before U.S. and foreign taxes on income	**31,084**	26,318
Provision for U.S. and foreign taxes on income (Note 8)	**12,610**	11,510
Income before extraordinary credits	**18,474**	14,808
Extraordinary credits (Note 8)	**1,179**	458
Net income	**$ 19,653**	$ 15,266
Per share (Note 11)		
Income before extraordinary credits	**$5.49**	$4.45
Extraordinary credits	**.35**	.14
Net income	**$5.84**	$4.59

The accompanying notes are an integral part of the financial statements.

Consolidated Statement of Changes in Financial Position

Sun Chemical Corporation and Subsidiaries

(in thousands of dollars)		
Year ended December 31,	**1978**	1977
Sources of working capital		
Income before extraordinary credits	**$ 18,474**	$14,808
Items which did not affect working capital		
Depreciation	**6,522**	5,693
Deferred taxes and other	**45**	1,240
Equity in undistributed earnings of affiliates	**(1,670)**	(635)
Working capital provided from operations	**23,371**	21,106
Extraordinary credits affecting working capital	**758**	458
Additions to long-term debt	**58,641**	28,489
Reclassification of long-term sales lease receivables sold to a financial institution in 1979 and prepayment of long-term receivables	**3,464**	1,350
Disposal of property, plant and equipment and adjustment to basis of investment	**1,717**	1,026
Exercise of stock options	**553**	2,953
Other, net	**1,256**	1,198
	89,760	56,580
Uses of working capital		
Reduction of long-term debt	**33,085**	4,070
Expenditures for property, plant and equipment	**30,236**	11,785
Investment in Chromalloy American Corporation	**8,664**	—
Purchase of certain minority interests	**2,087**	689
Cash dividends paid	**1,953**	1,452
Investment in sales-type leases	**1,717**	1,243
Costs related to issuance of subordinated debentures	**1,400**	—
Purchases of treasury stock	**1,075**	436
Capitalized leased equipment	**—**	1,353
	80,217	21,028
Increase in working capital	**$ 9,543**	$35,552
Increase (decrease) in working capital		
Cash	**$ 912**	$ (1,779)
Short-term investments	**21,615**	6,036
Due from issuance of senior notes	**(5,140)**	5,140
Accounts and notes receivable	**15,995**	10,971
Inventories	**10,372**	6,771
Deferred income tax benefits	**—**	(3,107)
Prepaid expenses and other current assets	**693**	(387)
Bank loans	**(5,241)**	26,715
Current maturities of long-term debt	**(3,121)**	(1,160)
Accounts payable	**(13,360)**	(4,395)
Accrued expenses	**(5,829)**	(3,769)
Accrued taxes on income	**(7,353)**	(5,484)
Total increase in working capital	**$ 9,543**	$35,552

The accompanying notes are an integral part of the financial statements.

Consolidated Statement of Shareholders' Equity

Sun Chemical Corporation and Subsidiaries

(in thousands of dollars except per share data)

	Preferred stock (a)	Common stock (b) (Note 11)	Capital in excess of par value	Retained earnings (Note 7)	Treasury stock (c)	Valuation allowance (Note 5)	Total
Balance at December 31, 1976	**$ 72**	**$2,221**	**$25,682**	**$33,751**	**$(2,660)**	**$ —**	**$59,066**
Net income	—	—	—	15,266	—	—	15,266
Cash dividends							
Preferred—$2.50 per share	—	—	—	(2)	—	—	(2)
Common—$.45 per share	—	—	—	(1,450)	—	—	(1,450)
Redemption of preferred stock	(72)	—	—	—	—	—	(72)
Effects of 3-for-2 stock split							
Issuance of 1,109,105 shares	—	1,109	(1,109)	—	—	—	—
Cash paid in lieu of 1,396 fractional shares	—	—	(31)	—	—	—	(31)
Adjustments related to warrants repurchased with 6% subordinated notes	—	—	131	—	—	—	131
Purchase of 21,500 shares of common stock for treasury	—	—	—	—	(436)	—	(436)
Exercise of stock options	—	150	2,405	—	398	—	2,953
Balance at December 31, 1977	**$—**	**$3,480**	**$27,078**	**$47,565**	**$(2,698)**	**$ —**	**$75,425**
Net income	—	—	—	19,653	—	—	19,653
Cash dividends							
Common—$.60 per share	—	—	—	(1,953)	—	—	(1,953)
Adjustments related to warrants repurchased with 6% subordinated notes	—	—	(1,941)	—	—	—	(1,941)
Purchase of 55,400 shares of common stock for treasury	—	—	—	—	(1,075)	—	(1,075)
Exercise of stock options	—	—	(81)	—	634	—	553
Reduction of non-current investment to lower of cost or market	—	—	—	—	—	(1,374)	(1,374)
Balance at December 31, 1978	**$—**	**$3,480**	**$25,056**	**$65,265**	**$(3,139)**	**$(1,374)**	**$89,288**

(a) Cumulative, $100 par value, 200,000 shares authorized; 1978 and 1977—none outstanding.

(b) $1.00 par value, 5,000,000 shares authorized; 1978 and 1977—3,480,108 shares issued.

(c) Common shares in treasury; 1978—211,641; 1977—198,717.

The accompanying notes are an integral part of the financial statements.

Notes to Consolidated Financial Statements

(All amounts in thousands of dollars except per share data)

Note 1 Summary of significant accounting policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of Sun Chemical Corporation and subsidiaries. Financial statements of certain subsidiaries cover fiscal years ending September 30 and November 30 to facilitate timely consolidation. Intercompany balances and transactions have been eliminated. Sun's investments in 20% to 50% owned companies are reflected on the equity method of accounting.

Excess of cost over net assets of companies acquired is being amortized on a straight-line basis over 40 years.

(b) Short-term investments

Short-term investments are stated at the lower of their aggregate cost or market.

(c) Inventories and contract accounting

Inventories are stated at the lower of cost or market. Certain inventories (principally in the domestic graphic arts materials businesses) are valued on a last-in, first-out basis. The remaining inventories are valued on a first-in, first-out basis.

Inventoried costs relating to instrument contracts are stated at actual or average costs, including engineering and manufacturing labor and related overhead incurred, reduced by amounts identified with shipments. The costs attributable to shipments include the estimated cost of all items to be produced under the related contract. If estimates of total contract costs indicate a loss, provision is currently made. Revenues are recognized at the time of shipment.

(d) Property and depreciation

Depreciation of plant and equipment is provided on a straight-line basis. The provision is computed based upon the estimated useful lives of the various assets, up to 40 years on buildings and 4 to 11 years on machinery and equipment. Accelerated depreciation methods are used for income tax purposes.

Upon sale or retirement of properties, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected currently. Expenditures for maintenance and repairs are expensed, while betterments and replacements are capitalized.

(e) Income taxes

Income taxes are provided on income as reported in the financial statements regardless of the period in which such income is realized for tax purposes. Timing differences, the tax effects of which are deferred to future periods, relate principally to the use of the completed contract method of income recognition on long-term contracts, accelerated depreciation and valuation reserves.

In 1977, the Company changed to the completed contract method for federal income tax purposes, effective for 1976 and subsequent years. Upon determination of the 1976 deferred taxable income resulting from the change, the Company adjusted in 1977 its deferred income tax benefits.

Investment tax credits are reflected as a reduction of the current tax provision on the flow-through method. U.S. income taxes are not provided on permanently reinvested earnings, or earnings which are remittable without significant additional tax cost, from certain foreign subsidiaries, joint ventures and the Domestic International Sales Corporation.

(f) Research and development

Research and development costs, charged to expense as incurred, amounted to approximately $7,300 in 1978 and $6,700 in 1977.

(g) Translation of foreign currencies

Net assets of foreign subsidiaries are translated at the rates of exchange in effect at year-end, except for inventories and certain other assets, property and certain deferred items which are translated at historic rates of exchange. Income and expense accounts are translated at the average rates of exchange prevailing during the year, except for those accounts related to assets and liabilities translated at historic rates of exchange, which are similarly translated at historic rates.

The Company recognized losses of $47 in 1978 and $412 in 1977 due to the translation of its foreign subsidiaries' financial statements and other foreign currency transactions.

(h) Earnings per share

Earnings per common share in 1978 and 1977 are computed using the weighted average number of shares of common stock outstanding during the year, including dilutive common stock options as common stock equivalents. Earnings per share computations are based on 3,366,000 shares in 1978 and 3,327,000 shares in 1977. Fully diluted earnings per common share are not shown since such amounts are not dilutive.

Note 2 Short-term investments

Short-term investments consist of the following:

Year ended December 31,	**1978**	1977
Certificates of deposit and time deposits	**$27,398**	$ 6,036
Other marketable securities (net of an unrealized loss of $30)	**253**	–
	$27,651	$ 6,036

Note 3 Inventories
Inventory amounts used in determining the cost of goods sold in the accompanying consolidated statement of income were:

	1978	1977
January 1	$55,475	$48,704
December 31		
Finished goods	$19,958	$17,882
Work in process	24,210	17,625
Raw materials	17,669	17,381
Long-term contract costs	18,697	9,047
Progress payments	(14,687)	(6,460)
	$65,847	$55,475

At December 31, 1978 and 1977, approximately 48% and 53%, respectively, of the consolidated inventories were stated on a last-in, first-out basis. If all inventories had been valued on a first-in, first-out basis, inventories would have been $11,482 and $9,550 higher than reported at the respective year-ends.

Note 4 Investment in Ault & Wiborg Group Limited and other affiliates
Sun has a 44% equity interest in Ault & Wiborg Group Limited (A&W), a manufacturer of printing inks and related products in the United Kingdom. Summarized financial position and results of operations of A&W, prepared in accordance with U.S. generally accepted accounting principles, in pounds sterling, were:

Year ended December 31,	1978	1977
Financial position		
Net current assets	£ 6,389	£ 4,558
Property, plant and equipment—net	6,104	5,464
Other assets	2,231	2,290
Long-term liabilities	(3,753)	(2,902)
Net assets	£10,971	£ 9,410
Results of operations		
Net sales	£38,964	£33,928
Operating income	3,137	2,376
Income before taxation	3,089	2,125
Taxation	1,630	1,287
Income before extraordinary credit	1,459	838
Extraordinary credit	500	—
Net income	1,959	838

A&W's financial position and results of operations translated into U.S. dollars for Sun's consolidated financial statements are summarized as follows:

Year ended December 31,	1978	1977
Financial position		
Net current assets	$12,783	$ 8,985
Property, plant and equipment—net	13,076	11,953
Other assets	5,485	5,634
Long-term liabilities	(7,663)	(6,581)
Net assets	$23,681	$19,991
Results of operations		
Net sales	$75,185	$59,768
Operating income	7,248	5,022
Income before taxation	6,615	3,718
Taxation	3,145	2,267
Income before extraordinary credit	3,470	1,451
Extraordinary credit	972	—
Net income	4,442	1,451
Sun's equity in income before extraordinary credit	1,503	600
Sun's equity in extraordinary credit	421	—

The market value of Sun's interest in A&W amounted to $7,859 based on a quoted market price on December 31, 1978.

The total of the Company's investments in other 20% to 50% owned companies is not significant. Included in retained earnings at December 31, 1978 and 1977 are $3,853 and $1,762, respectively, of equity in undistributed earnings of all affiliated companies.

Note 5 Investment in Chromalloy American Corporation
During 1978, Sun purchased on the New York Stock Exchange 459,900 shares of common stock of Chromalloy American Corporation (CAC), a diversified company headquartered in St. Louis, Missouri, at an aggregate cost of $8,482 and 2,500 shares of CAC's $5 cumulative convertible preferred stock at an aggregate cost of $182. At December 31, 1978, the total market value of these shares of common and preferred stock was $7,290. Assuming conversion of the preferred stock held by Sun, the Company would own 4.2% of CAC's outstanding common stock at that time. The shares of CAC have been acquired by Sun for investment purposes.

Sun's investment in CAC is carried at the lower of cost or market. A valuation allowance of $1,374, representing the temporary excess of cost over market at December 31, 1978, is reflected as a reduction of shareholders' equity. At February 26, 1979, the market value of this investment was $8,751.

During January and February 1979, Sun purchased an additional 172,800 shares of CAC's common stock for $3,314, bringing Sun's ownership of CAC to 5.5%.

Note 6 Bank loans and compensating balances
At December 31, 1978 and 1977, the Company maintained unutilized lines of credit, generally at the prime rate, with various domestic banks in amounts totaling $33,500 and $34,500, respectively. Short-term debt outstanding at December 31, 1978 and 1977 consisted primarily of borrowings of foreign subsidiaries and bank loans denominated in foreign currencies.

Informal arrangements in support of the majority of the lines of credit generally call for the Company to maintain average deposits equal to 10% of the total commitment and 10% of amounts borrowed. These compensating balances were approximately $3,000 in both years and were unrestricted as to use by the Company.

Pertinent data relating to bank loans were:

	1978	1977
At year-end:		
Outstanding loans payable to banks	$11,469	$ 6,228
Average interest rate	11.3%	9.7%
During the year:		
Maximum outstanding borrowings at any month-end	$16,303	$32,370
Average monthly outstanding borrowings	11,171	23,492
Average interest rate	12.3%	9.8%

Note 7 Long-term debt

In December 1978, the Company sold $40,000 of 11½% subordinated debentures due December 1, 1996 in a public offering. Interest on the debentures is payable semiannually. The debentures are redeemable at any time at the option of the Company at 111½% of par value prior to December 1, 1983, except with money borrowed at an interest cost of less than 11½% per annum, and thereafter at prices declining to 100% on or after December 1, 1988.

Sinking fund payments sufficient to retire annually $3,600 principal amount of the debentures commencing December 1, 1988 are required to retire 72% of the issue prior to maturity. The debentures will be subordinated to all senior indebtedness of the Company.

Net proceeds from the offering, after underwriting expenses, approximated $38,600. Of the proceeds, $14,000 was used to repay bank loans which were to mature in 1980 with interest rates ranging from 10⅜% to the prime rate. In October 1978, the Company used these bank loans to purchase approximately $12,800 principal amount of its outstanding 6% subordinated notes due 1986, together with warrants to purchase approximately 437,000 shares of common stock for a total consideration of $13,200 plus accrued interest. The warrants were canceled following purchase.

The loss realized on this transaction was immaterial due to the fact that the portion of the purchase price attributable to the value of the warrants (which was charged against capital in excess of par value) was substantially offset by a reduction in the unamortized debt discount associated with the subordinated notes repurchased.

The remaining proceeds will be used for investments, working capital purposes and any 1979 capital expenditures not paid out of internally generated funds.

The Company entered into agreements with the holders of its senior notes and the remaining holder of its 6% subordinated notes to modify certain financial covenants contained in the indentures under which the debt was issued. The modification of such financial covenants enabled Sun to issue the new subordinated debentures and permits the Company to issue additional senior and subordinated long-term debt in the future. The agreements also increase the amount of additional investments which the Company may make. The modifications increase the minimum net worth that the Company must maintain. As consideration for such modifications, the interest rate on the Company's 9¼% senior notes due from 1985 to 1993 was increased to 9½% per annum, and the interest rates on its 4⅞%-6½% senior notes due from 1979 to 1988 were increased to 5⅜%-7% per annum. The interest rate on its remaining 6% subordinated notes was increased to 7% per annum.

In September 1977, the Company entered into long-term note and credit agreements totaling $25,000 with a group of insurance companies and a group of banks for the purpose of repaying existing bank loans and financing planned capital improvements. Prior to December 31, 1977, $19,860 in notes were issued, and the balance of $5,140 was issued in January 1978.

In January 1979, the Company prepaid approximately $3,600 in import financing notes. Accordingly, such amount has been reclassified to current maturities of long-term debt.

Long-term debt, net of current maturities, is as follows:

Year ended December 31,	1978	1977
9½% senior notes, due 1985-1993	**$15,000**	$15,000
8¼% credit agreement, due 1984	**10,000**	10,000
5⅜%-7% notes, due 1979-1988	**4,802**	6,270
4.7%-8.5% Industrial Revenue Bonds due 1979-2004	**9,127**	9,653
Mortgages, import financing notes and other senior long-term debt (including capitalized leases—see Note 9)	**5,497**	5,088
11½% subordinated debentures, due 1996	**40,000**	—
7% subordinated notes, due 1979-1986	**1,063**	13,922
	$85,489	$59,933
Less: unamortized debt discount	**(110)**	(2,153)
	$85,379	$57,780

Unamortized debt discount applies to the 7% subordinated notes, and is being amortized over the life of the issue.

Debt maturities, including capitalized leases, in the years 1979 through 1983, are:

Year ending December 31:	
1979	$ 7,748
1980	3,514
1981	5,322
1982	5,217
1983	4,097

At December 31, 1978, consolidated retained earnings of approximately $11,500 were unrestricted as to payment of cash dividends on common stock.

Note 8 Taxes on income

Taxes on income have been provided as follows:

Year ended December 31,	1978	1977
United States		
Current	**$ 7,886**	$ 5,475
Deferred	**1,543**	3,483
Foreign	**3,181**	2,552
	$12,610	$11,510

Deferred taxes result from the following timing differences:

Year ended December 31,	1978	1977
Completed contract method	**$ 1,691**	$ 4,672
Accelerated depreciation	**576**	432
Provision for losses on long-term contracts	**(288)**	(1,123)
Other, net	**(436)**	(498)
	$ 1,543	$ 3,483

The provision for taxes on income is different from the amount computed by applying the U.S. federal income tax rate

of 48% to income before U.S. and foreign taxes on income. The reasons for this difference are as follows:

Year ended December 31,	1978	1977
Computed income tax at 48% rate	**$14,920**	$12,633
Losses of foreign subsidiaries (including translation losses) for which no tax benefit can be reflected	**478**	964
Investment tax credit	**(1,276)**	(569)
Equity in net earnings of affiliated companies which are net of tax expense	**(954)**	(448)
Benefit from DISC earnings	**(502)**	(388)
Other, net	**(56)**	(682)
	$12,610	$11,510

The undistributed earnings from certain foreign subsidiaries, joint ventures and the Domestic International Sales Corporation, on which U.S. federal income tax has not been provided because such earnings are either permanently reinvested or could be distributed without significant tax cost to the Company, amounted to $18,926 at December 31, 1978 and $15,595 at December 31, 1977.

Extraordinary credits were comprised of the following:

Year ended December 31,	1978	1977
Net operating loss carryforwards of foreign subsidiaries	**$ 610**	$ 50
Equity in an affiliate's insurance gain (Note 4)	**421**	—
Foreign tax credit carryforwards	**148**	239
Capital loss carryforwards	**—**	169
	$ 1,179	$ 458

Note 9 Lease commitments

The Company and its subsidiaries are obligated under long-term noncancelable leases on certain plants, warehouses, office facilities and machinery and equipment expiring at various dates through 2002.

In 1977, the Company adopted an accounting policy for leases consistent with the standards newly established by the Financial Accounting Standards Board. Accordingly, leases have been classified as either capital or operating leases, as appropriate.

Capital leases—The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of December 31, 1978:

Year ending December 31:	
1979	$ 837
1980	813
1981	786
1982	727
1983	301
Later years	521
Net minimum lease payments	3,985
Less: amount representing interest	(985)
Present value of net minimum lease payments (including current installments of $519)	$ 3,000

Equipment leased under capital leases amounted to $3,601 in 1978 and $1,915 in 1977. Amortization of the leased equipment was $502 and $324 and interest expense on the outstanding obligations under such leases was $298 and $199 in 1978 and 1977, respectively.

Operating leases—The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 1978:

Year ending December 31:	Buildings	Machinery & Equipment
1979	$ 2,110	$ 326
1980	1,894	181
1981	1,794	107
1982	1,598	89
1983	1,418	71
Later years	5,671	191
Total minimum payments required	$14,485	$ 965

Total minimum lease payments have not been reduced by minimum sublease rental income of $1,029 due in the future under noncancelable subleases.

The following schedule shows the composition of total rental expense for all operating leases except those with terms of a month or less that were not renewed:

Year ended December 31,	1978	1977
Minimum rentals	**$ 4,014**	$ 3,282
Less: sublease rentals	**(108)**	(48)
	$ 3,906	$ 3,234

Sales-type leases—The following is an analysis of the components of the net investment in sales-type leases:

Year ended December 31,	1978	1977
Total minimum lease payments to be received	**$ 214**	$ 2,130
Less: unearned income	**(61)**	(678)
Net investment	**153**	1,452
Less: current portion of net investment, included in accounts receivable	**(19)**	(138)
Long-term net investment	**$ 134**	$ 1,314

During 1978, the Company entered into additional sales-type leases of $3,543. In January 1979, approximately $4,100 of sales-type leases were sold to a financial institution. Accordingly, these receivables were reclassified to accounts receivable.

At December 31, 1978, minimum lease payments to be received for each of the five succeeding fiscal years are approximately $36 per year.

Note 10 Pension and retirement plans

Pension and retirement plans cover substantially all employees, subject to certain age and service requirements. Pension expense during the periods indicated was as follows:

Year ended December 31,	1978	1977
Company-sponsored plans	**$ 1,639**	$ 1,551
Union plans	**414**	405
	$ 2,053	$ 1,956

The Company's policy is to fund pension costs accrued subject to the availability of current tax benefits.

The actuarially computed value of vested benefits for all Company-sponsored plans as of the latest actuarial valuation date (December 31, 1977) exceeded the total of the assets

held by the trustees and balance sheet accruals at December 31, 1978 by approximately $3,118.

The aggregate unfunded liability for past service costs under the plans at December 31, 1978 was approximately $1,980. Past and prior service costs are being amortized over 15 years.

The Company's liability under union trusteed plans, which are jointly administered by union and industry representatives, is limited to hourly contribution rates as agreed in union contracts.

Note 11 Stock options and warrants

All common share amounts and prices for options and warrants have been adjusted to reflect the 3-for-2 stock split in February 1977. All options have been granted at the market price on date of grant.

Qualified stock option plan—Pursuant to the 1969 Key Employees' Stock Option Plan, as amended, options may be granted to key employees to purchase shares of common stock. Options become exercisable not earlier than one year and expire no later than five years from date of grant. Summarized data relating to this plan are:

		Number of shares	Average option price per share
Options outstanding December 31	1978	93,475	$13.53
	1977	137,875	13.22
Options granted	1978	2,000	25.00
	1977	3,000	21.29
Options exercised	1978	42,650	13.04
	1977	30,500	14.18
Options canceled or expired	1978	3,750	13.76
	1977	750	13.33
Options which became exercisable	1978	39,124	13.05
	1977	3,500	8.10
Options exercisable	1978	20,724	12.32
	1977	24,750	12.42
Options available for future grant	1978	95,875	—
	1977	94,125	—

The average market prices per share on the dates the options became exercisable were $25.81 and $22.11 for 1978 and 1977, respectively. No charges are made to income in connection with this stock option plan. Upon exercise of options, the difference between the average cost of treasury stock issued and the proceeds received is credited or charged to capital in excess of par value.

Non-qualified stock options—During 1975, a non-qualified stock option to purchase 60,000 shares of common stock at a price of $7.25 per share was granted to the Company's President. Similar non-qualified stock options to purchase an aggregate 39,750 shares of common stock at $13.33 per share were granted on April 22, 1976 to four other Company officers. These grants were subsequently approved by the shareholders.

In lieu of exercising the option, the grantee may surrender his option and receive the value of the appreciation of the shares in either common stock or cash at the discretion of the Board of Directors. In 1978 and 1977, 34,500 and 26,250 shares became exercisable at an average price of $9.89 and $8.47 per share, respectively, making a total of 60,750 exercisable at an average price of $9.28 at December 31, 1978. On the dates the options became exercisable, the average market prices per share were $22.96 and $19.03, respectively. An additional 19,500 shares became exercisable on January 1, 1979 at $7.25 per share.

In connection with the grants to the five officers, the Company has accrued $683 in 1978 and $406 in 1977 as compensation expense, based on changes in the market value of the Company's common stock.

In August 1977, the Company's Chairman exercised a non-qualified stock option granted in 1973 to purchase 150,000 shares of common stock at $16.17 per share.

Warrants—In connection with the sale of its 6% subordinated notes in 1969 and 1970, the Company issued warrants to the holders of the notes to purchase shares of common stock.

In October 1978, the Company purchased approximately $12,800 principal amount of its outstanding subordinated notes due in 1986, together with warrants to purchase 437,063 shares of common stock. Following purchase, the subordinated notes and warrants were canceled. (See Note 7.) The remaining 39,374 warrants are currently exercisable at $31.33 per share until July 22, 1979.

Note 12 Segment and geographic data

The Company and its subsidiaries operate internationally in four industry segments:

Graphic arts materials—Printing inks for every major printing process; and organic pigments used in printing inks, paints, plastics, textiles and cosmetics.

Graphic equipment—Including decorators for cylindrical metal and plastic containers; electronic color scanners; printing platemakers; and ink curing apparatus.

Instruments—For use in commercial and government aircraft; and electro-optical sighting and tracking devices.

Diversified products—Including specialty chemicals for the textile, paper and graphic arts industries; flexible laminates used in electrical shielding, insulation and reinforced vinyl fabrics; and cigarette lighters for automobiles, trucks and other vehicles.

Intersegment and interarea sales are generally made at prevailing market prices. Operating income includes all costs and expenses directly related to the segment or geographic area. Corporate items include general corporate expenses, net interest expense and equity in the net earnings of affiliated companies. Identifiable assets are those directly used by the

segment or geographic area involved. Corporate assets consist primarily of cash, non-trade receivables and investments.

Affiliated companies accounted for by the equity method are located principally in Europe and operate primarily in the graphic arts materials and graphic equipment businesses. The Company's investment in these businesses was $12,044 at December 31, 1978, and $8,713 at December 31, 1977.

No single commercial customer had more than 4% of net sales in either year. Export sales were less than 10% of net sales in both years. The largest single contract with any one U.S. government agency accounted for 4% and 6% of net sales in 1978 and 1977. Prime and subcontracts with all government agencies accounted for 7% and 9% of net sales in 1978 and 1977.

A summary of the Company's operations by segment and geographic area follows:

Operations by industry segment:

Year ended December 31, 1978:	Graphic arts materials	Graphic equipment	Instruments	Diversified products	Corporate	Eliminations	Consolidated
Sales to unaffiliated customers	$261,471	$29,057	$50,935	$52,139	$ —	$ —	$393,602
Intersegment sales and transfers	—	—	—	1,930	—	(1,930)	—
Total sales	261,471	29,057	50,935	54,069	—	(1,930)	393,602
Operating income	25,907	4,949	6,791	7,623	(10,602)	—	34,668
Identifiable assets	158,481	20,889	30,779	20,191	62,267	—	292,607
Capital expenditures	20,827	2,077	3,739	2,828	765	—	30,236
Depreciation expense	4,851	274	448	645	304	—	6,522

Year ended December 31, 1977:	Graphic arts materials	Graphic equipment	Instruments	Diversified products	Corporate	Eliminations	Consolidated
Sales to unaffiliated customers	$218,093	$26,517	$45,074	$47,826	$ —	$ —	$337,510
Intersegment sales and transfers	—	293	—	2,389	—	(2,682)	—
Total sales	218,093	26,810	45,074	50,215	—	(2,682)	337,510
Operating income	22,368	5,027	5,548	6,769	(9,875)	—	29,837
Identifiable assets	131,695	19,591	17,570	16,173	28,632	—	213,661
Capital expenditures	10,073	298	304	927	183	—	11,785
Depreciation expense	4,086	362	323	713	209	—	5,693

Operations by geographic area:

Year ended December 31, 1978:	United States	Europe	Other foreign	Corporate	Eliminations	Consolidated
Sales to unaffiliated customers	$327,794	$46,831	$18,977	$ —	$ —	$393,602
Interarea sales and transfers	1,804	43	—	—	(1,847)	—
Total sales	329,598	46,874	18,977	—	(1,847)	393,602
Operating income	38,553	4,099	2,618	(10,602)	—	34,668
Identifiable assets	175,802	35,845	18,693	62,267	—	292,607

Year ended December 31, 1977:	United States	Europe	Other foreign	Corporate	Eliminations	Consolidated
Sales to unaffiliated customers	$283,155	$36,897	$17,458	$ —	$ —	$337,510
Interarea sales and transfers	1,755	—	—	—	(1,755)	—
Total sales	284,910	36,897	17,458	—	(1,755)	337,510
Operating income	34,910	1,727	3,075	(9,875)	—	29,837
Identifiable assets	140,346	27,236	17,447	28,632	—	213,661

Note 13 Quarterly financial information

Results of operations for the fourth quarter of 1978 include adjustments which had the effect of reducing net income $1,300. Such adjustments were related to the following: provision for the settlement of a domestic customer claim, provision for the estimated cost of discontinuing a product line in one of the foreign operations of the graphic arts materials segment, the estimated cost of discontinuing two product lines in the graphic equipment segment, a long-term contract loss provision in the instrument segment and favorable inventory adjustments.

Results of operations in the fourth quarter of 1977 include long-term contract loss provisions which reduced net income $1,000. The Company modified its policy in providing for such losses on long-term contracts to exclude from estimated contract costs an allocation for general and administrative expenses. In prior years, such expense allocations were included in the determination of provisions for contract losses. The effect of the prior policy on results of operations was not material in any previous year. If such policy had been continued in 1977, net income would have been reduced $800 in the fourth quarter. In the opinion of management, this change in policy was made to reflect more clearly results of operations since general and administrative costs are largely fixed between periods.

Summarized quarterly data (unaudited) for 1978 and 1977 are as follows:

Quarterly Summary (unaudited) (in thousands of dollars except per share data)

1978 Quarter ending,	March 31	June 30	Sept. 30	Dec. 31	Year
Net sales	$90,350	$97,419	$100,773	$105,060	$393,602
Cost of goods sold	62,101	66,861	69,583	73,285	271,830
Operating income	7,608	9,167	8,414	9,479	34,668
Income before extraordinary credits	4,118	4,989	4,904	4,463	18,474
Extraordinary credits	317	51	80	731	1,179
Net income	4,435	5,040	4,984	5,194	19,653
Per share					
Income before extraordinary credits	$1.23	$1.48	$1.45	$1.33	$5.49
Extraordinary credits	.09	.02	.02	.22	.35
Net income	$1.32	$1.50	$1.47	$1.55	$5.84
Dividends paid	$ .15	$ .15	$ .15	$ .15	$ .60
Market price					
High	22⅝	28½	32	29	32
Low	18⅛	20⅞	23¾	22	18⅛
Close	21⅞	24⅞	28¼	24⅜	24⅜

1977 Quarter ending,	March 31	June 30	Sept. 30	Dec. 31	Year
Net sales	$83,196	$82,175	$ 85,540	$ 86,599	$337,510
Cost of goods sold	57,678	56,356	59,121	59,056	232,211
Operating income	7,042	6,866	7,406	8,523	29,837
Income before extraordinary credits	3,390	3,792	3,942	3,684	14,808
Extraordinary credits	77	—	29	352	458
Net income	3,467	3,792	3,971	4,036	15,266
Per share					
Income before extraordinary credits	$1.03	$1.16	$1.18	$1.08	$4.45
Extraordinary credits	.02	—	.01	.11	.14
Net income	$1.05	$1.16	$1.19	$1.19	$4.59
Dividends paid	$ .10	$ .10	$ .10	$ .15	$ .45
Market price					
High	25	23	24⅝	22⅞	25
Low	18⅛	18⅝	20¼	17¾	17¾
Close	20⅞	20⅞	21	20½	20½

Note 14 Contingent liabilities
The Company is contingently liable with respect to graphic equipment leases and installment sales contracts assigned and sold to financial institutions. The Company's estimated contingent liability on these contracts is approximately $4,200.

Sun and its subsidiaries are also contingently liable with respect to discounted notes, claims and various lawsuits. Ultimate liability with respect to such contingencies is not presently determinable but will not, in the opinion of management and counsel, have a material adverse effect on the business or financial position of the Company and its subsidiaries.

A portion of the Company's sales was subject to renegotiation under the Renegotiation Act of 1951, which expired on September 30, 1976. Clearance has been received through 1975. Effective October 1976, certain sales became subject to the Vinson-Trammell Act (Excess Profits Tax of 1934). Management believes that results since 1975 include no excessive profits under either Act.

Note 15 Replacement cost data (unaudited)
In compliance with rules of the Securities and Exchange Commission, the Company has estimated certain replacement cost information for productive capacity, inventories, cost of goods sold and depreciation. These data are based on the hypothetical assumption that the Company would replace its entire inventory and productive capacity at the end of its fiscal year, whether or not the funds to do so were available or such "instant" replacement were physically possible.

Operating cost savings which might result from the replacement of existing assets with assets of improved technology are not reflected. Also not reflected is the Company's historical ability to compensate for cost increases by increasing productivity and sales prices in amounts sufficient to maintain margins.

The Company's Annual Report on Form 10-K contains specific information with respect to fiscal 1978 and 1977 replacement cost of inventories and productive capacity and the approximate effect that replacement costs would have had on the computation of cost of goods sold and depreciation expense for each year.

Form 10-K
A copy of Sun Chemical Corporation's 1978 Annual Report on Form 10-K filed with the Securities and Exchange Commission is available to shareholders upon request to the Corporate Communications Department, Sun Chemical Corporation, 200 Park Avenue, New York, New York 10017.

Auditors' Report

ARTHUR ANDERSEN & CO.
NEW YORK, N. Y.

To the Shareholders
and the Board of Directors,
Sun Chemical Corporation:

We have examined the consolidated balance sheet of Sun Chemical Corporation (a Delaware corporation) and subsidiaries as of December 31, 1978 and 1977, and the related consolidated statements of income, shareholders' equity and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of Ault & Wiborg Group Limited (A&W), a 44% owned affiliate, the investment in which is reflected in the accompanying financial statements using the equity method of accounting. See Note 4 to the financial statements for information relating to A&W. The financial statements of A&W were examined by other auditors whose report thereon has been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for A&W, is based solely upon the report of the other auditors.

In our opinion, based upon our examination and the report of other auditors referred to above, the consolidated financial statements referred to above present fairly the financial position of Sun Chemical Corporation and subsidiaries as of December 31, 1978 and 1977, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

Arthur Andersen & Co.

February 26, 1979.

Management and Organization

Board of Directors

*Norman E. Alexander
Chairman of the Board
Sun Chemical Corporation

*Edward E. Barr
President
Sun Chemical Corporation

‡Disque D. Deane
Partner
Lazard Freres & Co.
investment banking and
Chairman of the Board
Corporate Property Investors
real property investors

*†A. Leon Fergenson
Chairman of the Executive Committee
General Cable Corporation
diversified manufacturing

‡Raymond Frankel
President
Technological Investors Management Corporation
investment advisor

†F. Mark Garlinghouse
Vice President and General Counsel
American Telephone and Telegraph Company

*Stuart Z. Krinsly
Executive Vice President and
General Counsel
Sun Chemical Corporation

‡Samuel J. Levy
Chairman of the Board
Southern Packaging Design Corporation
woven label and packaging material manufacturing

‡Ralph S. Stillman
Retired, Directors Advisory Council
Marine Midland Bank—New York

†Fred R. Sullivan
Chairman of the Board and President
Walter Kidde & Company, Inc.
multi-market manufacturing and service company

‡Gerald Tsai, Jr.
Chairman
G. Tsai & Company, Inc.
Member, New York Stock Exchange

Honorary Director

Joseph Harris
President
Harris Associates, Inc.
insurance brokers

*Executive Committee
†Audit Committee
‡Salary and Option Committee

Corporate Officers and Staff

*Norman E. Alexander
Chairman of the Board and
Chief Executive Officer

*Edward E. Barr
President and
Chief Operating Officer

*Stuart Z. Krinsly
Executive Vice President and
General Counsel

*Gerald S. Gutterman
Senior Vice President, Finance

Gordon R. MacQuaker
Senior Vice President
Graphic Arts Group

H. C. Whittemore, Jr.
Senior Vice President
Chemicals Group

Daniel J. Carlick
Vice President, Technical Director
Graphic Arts Group

M. A. Fischer
Vice President
Graphic Equipment Group

Richard E. France
Vice President, Purchasing

Fred L. Gagnon
Vice President, Instrument Group

Bernard M. Jaffe
Vice President and Secretary

Dennis M. Libutti
Vice President
Rutherford Machinery Division

William V. Machaver
Vice President, Industrial Relations

Massie E. Odiotti
Vice President
General Printing Ink Division

Lloyd F. Taylor
Vice President, Automotive Group

James Weintraub
Vice President
General Manager
Research and Development

S. R. Cacace
Controller

David J. O'Brien
Treasurer

Monroe Adlman
Assistant Secretary and
Director of Taxes

Geoffrey L. Phillips
Director of Corporate Planning

*Executive Committee

United States Operations

Gordon R. MacQuaker
Senior Vice President
Graphic Arts Group

Daniel J. Carlick
Vice President, Technical Director
Graphic Arts Group

Massie E. Odiotti
Vice President
General Printing Ink Division

Louis J. Gaspari
General Manager
GPI Eastern Division

David E. Hood
General Manager
GPI Western Division

H. C. Whittemore, Jr.
Senior Vice President
Chemicals Group

Michael Pisetzner
Assistant General Manager
Chemicals Group

Peter Ludwig
Controller-Manager, International
Operations, Chemicals Group

Richard L. Lister
General Manager, Pigments Division

A. L. Brown, Jr.
Director of Sales and Marketing
Pigments Division

Donald S. Bunin
Director of Operations
Pigments Division

William E. Morris
General Manager, Chemicals Division

M. A. Fischer
Vice President
Graphic Equipment Group

Dennis M. Libutti
Vice President
Rutherford Machinery Division

Melvin A. Ettinger
General Manager
Rutho-Graphics Division

John V. Landau
General Manager
Color Service Division

Fred L. Gagnon
Vice President, Instrument Group

Lloyd F. Taylor
Vice President, Automotive Group

David Sahud
General Manager, Facile Division

Robert L. Manning
Director, Export

Foreign Subsidiaries and Affiliates

General Printing Ink (Australia) Pty. Ltd. (50%-owned)
Victoria, Australia
F. J. McMellan, General Manager

Encres Dresse, S.A. (95%-owned)
Brussels, Belgium
Albert Petre, President

SNL Insurance, Ltd.
Hamilton, Bermuda
Donald Duddy, President

General Printing Ink Corporation of Canada, Ltd.
Weston, Ontario, Canada
Ian Nicol, General Manager

Quimica Flesch S.A. (50%-owned)
Santiago, Chile
Dr. Alejandro Schlesinger
General Manager

Sun Chemical de Centro America, S.A. de C.V. (40%-owned)
San Salvador, El Salvador
Nassim Yarhi, President

Materiels Equipements Graphiques (50%-owned)
Morangis, France
Rene Bodenan, President

Societe France Couleurs S.A. (95%-owned)
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